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# Disclosures of fronting arrangements by fronting coompanies

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# Practice Bulletin 9

December 1991

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## Disclosures of Fronting Arrangements by Fronting Companies

Insurance Companies Committee

**AICPA**

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American Institute of Certified Public Accountants

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# Practice Bulletin 9

## Disclosures of Fronting Arrangements by Fronting Companies

1. This practice bulletin provides guidance on disclosures of fronting arrangements in financial statements of insurance companies prepared in accordance with generally accepted accounting principles. The objective of such disclosures is to assist financial statement users in evaluating the risks involved in the fronting arrangements of the reporting entities.

### **Background**

2. Fronting is an arrangement between two or more insurers whereby the fronting company issues a policy and then cedes substantially all the risk through a reinsurance agreement to the other insurer(s) (the fronted company) in return for a ceding commission. As with other reinsurance contracts, the fronting company remains primarily liable on the insurance contract with the insureds.

3. Fronting arrangements usually are initiated by fronted companies that are not authorized to write insurance in particular states. Fronting for single-parent captives of commercial companies has become increasingly common in recent years.

4. Fronting companies often require collateral from the fronted company in the form of letters of credit or funds held. Guarantees by the parent of the fronted company are common. Fronting companies may have well-defined criteria as to the financial condition of a qualifying fronted company.

5. Fronting companies are exposed to the risk of loss if the fronted company does not meet its obligations and the fronting company is ultimately required to perform under the contract with insureds.

### **Disclosures of Fronting Arrangements**

6. Fronting arrangements are a form of reinsurance, to which the disclosure requirements of FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*, apply.

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